Opponent's Report on Dissertation Thesis

Institute of Economic Studies, Faculty of Social Sciences, Charles University
Opletalova 26, 110 00 Praha 1, Czech Republic
Phone: +420 222 112 330, Fax: +420 222 112 304

Author:	**Miroslav Palanský**
Advisor:	Doc. Petr Janský Ph.D.
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Address the following questions in your report, please:

a) Can you recognize an original contribution of the author?
b) Is the thesis based on relevant references?
c) Is the thesis defendable at your home institution or another respected institution where you gave lectures?
d) Do the results of the thesis allow their publication in a respected economic journal?
e) Are there any additional major comments on what should be improved?
f) What is your overall assessment of the thesis? (a) I recommend the thesis for defense without substantial changes, (b) the thesis can be defended after revision indicated in my comments, (c) not-defendable in this form.

(Note: The report should be at least 2 pages long.)

Date:	
Opponent's Signature:	
Opponent's Affiliation:	Prof. Nadine Riedel M.Sc., Ph.D. Ruhr-University Bochum

Institut für Wirtschaftspolitik und Regionalökonomik Am Stadtgraben 9 48143 Münster

Wirtschafts-
wissenschaftliche
Fakultät

Institut für
Wirtschaftspolitik und
Regionalökonomik
Westfälische
Wilhelms-Universität

Prof. Dr. Nadine Riedel
Director

Am Stadtgraben 9
48143 Münster
Germany

Tel. +49 251 83-22980
Tel. +49 251 83-22970

nadine.riedel@wiwi.uni-muenster.de

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Report on the Thesis of Miroslav Palansky
"Corruption, Tax Abuse, and Financial Secrecy"

Mr Palansky's thesis tackles questions related to corruption, tax abuse and financial secrecy. It comprises four chapters. Chapter 1 provides motivation and background for the topic and gives an overview of the analyses to come. The studies presented in Chapter 2-4 are original contributions to the economic literature.

In Chapter 2, "Value of Political Connections", the author empirically analyses the financial return that Czech firms derive from donations to political parties. The analysis is based on a comprehensive, partly hand-collected, data set spanning the years 1995-2014. The data contains donations from the universe of Czech firms as well as financial performance measures and some firm characteristics (including sector, assets and leverage).

To overcome endogeneity concerns, the author employs a "dynamic matching procedure" where in each period donating firms are matched with observationally similar firms based inter alia on industry classification and prior profitability. The analysis reveals that donating firms earn more than 1 percentage point higher returns on equity and assets corresponding to a 7.8% and 11.5% difference.

The chapter is well written and among the first papers to present evidence on the value of political donations in a transition economy. As already mentioned in my pre-report, the stable unit treatment value assumption might well be violated, but the author goes to some length to address this concern. Overall, I think this chapter makes an important and credible contribution to the academic literature. My very positive impression is confirmed by the fact that the chapter has already been accepted for publication in *Public Choice*, a very respected academic journal in public economics.

Chapter 3 of the thesis, "International Corporate Profit Shifting", contributes to a flourishing literature that aims to quantify tax-motivated profit shifting by multinational firms to low tax countries. The author uses macro data to quantify shifting activities. His analysis relies on country level data on foreign direct investments (FDI) and FDI income. Profit shifting volumes are quantified by estimating the effect of the share of inward FDI from haven economies on FDI's reported rate of return. From this, the author obtains estimates for aggregate shifting volumes and related revenue losses. A particular focus is on testing for heterogeneity of revenue losses across countries. In line with prior studies, estimated shifting volumes are large, where less developed countries are identified to be particularly vulnerable.

The chapter is well written and the analysis is competently conducted. There is a strong interest of policymakers and academics in understanding the size and structure of profit shifting activities and the paper offers insights in this regard. Assessing potential heterogeneity of shifting activities across countries – one particular aim of the paper - is also clearly of relevance. While reliable macro data are available for a lot of countries and thus allow a comprehensive quantification of profit shifting activities, the use of macro data has also limitations. Most importantly, the analysis exploits across-country variation, which leads to obvious endogeneity concerns. Unfortunately, approaches which exploit only within country variation are not feasible due to a lack of sufficient variation.

Still, I think the paper makes an important contribution, which is corroborated by the fact that it has been accepted for publication in *International Tax and Public Finance*.

In Chapter 4, "Secrecy Jurisdictions and the Countries they Harm", the author develops a "Bilateral Financial Secrecy Index" that quantifies which secrecy jurisdictions harm individual countries the most. The index is constructed based on a country-specific Financial Secrecy Index (FSI) (defined in previous research), which is then linked with bilateral information on portfolio investment used to proxy for the scale of the relationship between two jurisdictions. As a main finding, the analysis shows that different countries are exposed to and harmed by different secrecy jurisdictions. The author argues that the index helps evaluating policymakers' existing efforts to fight financial secrecy.

The construction of the index relies on various ad hoc assumptions (which, however, is typical for all indices that aim to measure phenomena that are not directly observable). To address concerns about the validity of these assumptions, the chapter contains a thorough discussion of the most important modelling assumptions. While this is helpful, the next step should be to add specifications that assess the robustness of the proposed indicator to modifications in assumptions.

Concluding, let me emphasize that this is an excellent dissertation that offers important insights and provides valuable contributions to the academic literature. I recommend the thesis for defense without substantial changes.

(Prof. Dr. Nadine Riedel)